

Section IV
Findings on Compliance and Reportable Conditions Pertaining to
Internal Control Structure Based on the Audit of the Financial
Statements



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Division of Employment and Training Findings on Compliance with Rules and Regulations

Finding Number 1: Employers not Assessed Penalties for not Filing Required Returns

The prior audit disclosed that the Division of Employment and Training (Division) did not assess penalties or fines for non-filers of Universal Health Insurance (UHI) quarterly returns in accordance with MGL Chapter 151A, Section 14G(g). Division officials had indicated that assessing interest and penalties for non-filed UHI contribution reports was not cost effective. Accordingly, that report recommended that the Division conduct and document a cost analysis to determine whether assessing penalties on non-filers as required by MGL Chapter 151A, Section G(g) is cost effective. If the analysis determines that it is not cost effective, the Division should undertake an effort to repeal the penalty section of the law. Until such time, it should impose the penalty as required.

Our current audit disclosed that the Division has taken partial corrective action as recommended last year. It conducted and documented a cost analysis on assessing penalties to employers not filing their quarterly UHI and/or for nonpayment of contributions due, and the results of the analysis indicated that the assessment of penalties was not cost effective. However, the Division has not assessed penalties since the prior audit or made an effort as recommended to repeal MGL Chapter 151A, Section 14G(g) which requires that the Division assess employers as follows:

“A penalty equal to 10% of the contribution due under this section; provided, however, that the penalty assessed shall not exceed \$100 nor ... be less than \$25 for each failure ...” (Fiscal Year 2002 Report Finding 5)

Recommendation

Using the results of its cost effective analysis, the Division should attempt to repeal the penalty section of MGL Chapter 151A, Section 14G(g) or consider increasing the fee in order to justify the cost associated with assessing the fine. Until such time as the law is amended, the Division should assess penalties for employers not filing quarterly UHI reports and/or for nonpayment of contributions due as required by MGL Chapter 151A, Section 14G(g).

Department Corrective Action Plan

The Division of Employment and Training (now the Division of Unemployment Assistance) will assess employers, who fail to file any report or form as required by MGL 151A Section 14G, the penalties prescribed in MGL 151, Section 14G(g).

Responsible person: Christine Olin, Assistant Director of Revenue Operations

Implementation date: November 3, 2003

Department of Fire Services Findings on Compliance with Rules and Regulations

Finding Number 2: Late Recording of Fixed Assets

The Department of Fire Services (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department purchased a Pumper Truck, at a cost of \$ 236,400.00 on February 28, 2003. However, the asset was not recorded into the MMARS fixed asset subsystem until March 21, 2003. Delay in entering was an administrative oversight.

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$50,000 or more to: "Be recorded into the system within seven (7) days of acquisition...to properly account for and record those items owned by the Commonwealth...and to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report."

Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

Recommendation

The Department should monitor all fixed asset purchases to ensure the recording of fixed assets valued at \$50,000 or more onto the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

Department Corrective Action Plan

The Director of Administrative Services at the Department of Fire Services will advise appropriate personnel of the required recording of a Fixed Asset within seven days of acquisition and will ensure that all appropriate personnel receive training and copies of the MMARS Fixed Asset System User Guide issued by the Office of the Comptroller. The Department will monitor fixed asset purchases to ensure future compliance.

Responsible person: Sylvia Stokes, Director of Administrative Services
Implementation date: 1/31/2004

Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 3: Collection of Accounts Receivable Needs Improvement

The prior audit disclosed that the Department of Mental Retardation (Department) needed to improve the collection of its accounts receivable. The fiscal year 2002 audit included the review of a \$593 Billing Accounts Receivable Subsystem (BARS) Receivable Entry (RE) that was processed on July 16, 1996 for room and board charges at an Intensive Care Facility/Mental Retardation (ICF/MR). The person for whom the receivable entry was made became a resident of the ICF/MR facility in July 1995 and is currently still a resident. As of July 23, 2003 the receivable totaled \$54,909, an increase of \$5,578 since the last Single Audit.

Department officials stated that attempts were made to collect the receivable in question over the last year by contacting the client's guardian and petitioning the Social Security Administration to change the representative payee from the client's guardian to the Department. Making the Department the representative payee would stop the receivable from accruing. Department officials also stated that it is their policy and prudent practice not to write off the receivable but to process the receivable through the Probate Court upon the death of the client to recoup past due amounts. The Department did not provide adequate documentation to support their collection efforts.

The Department is allowed to make charges for persons in its facilities under Chapter 123b (Mental Retardation) Section 16 (Charges for Care of Persons in Facilities) of the Massachusetts General Laws (MGL), which states in part:

"The Department may make charges for the care of any persons in its facilities."

The Code of Massachusetts Regulations (CMR) #115 Department of Mental Retardation, Section 3.06 (8) Collection of Charges states in part that:

"The Department shall collect charges for residential services and supports from the fee-payer, the Medical Program, a third party, or any combination of the above."

The Comptroller's Management Regulation (CMR) #815 – 9.05 Department Internal Debt Collection Obligations states in part that:

"Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the state. Departments shall maintain detailed records for all accounts receivable, debts and other legislatively authorized charges for goods or services."

The Internal Control Manual of the Department of Mental Retardation addresses the collection of receivables. In Chapter 4, sub section B, Accounts Receivable/Control Activities it states:

"The follow-up of aged receivables along with an aggressive collection policy should be a management priority."

Failure to comply with its own internal control policy and the State Comptroller's policies concerning the collection of accounts receivable could result in the Commonwealth not receiving the income it is entitled to. (Fiscal Year 2002 Report Finding 6)

Recommendation

The Department should comply with the Massachusetts General Laws, the State Comptroller's Regulations and its own Internal Control Policies regarding the collection of charges for care balances and diligently and aggressively pursue the collection of balances due from all residents. If it is deemed uncollectible, the Department should process a receivable decrease (RD) to write off the entire past due balance. If at the time of the client's death, the Department receives payment through the Probate Court, it can be re-posted to the Commonwealth's Accounts Receivable and recorded accordingly.

Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 3: Collection of Accounts Receivable Needs Improvement (continued)

Department Corrective Action Plan

As noted in prior communications, the Department of Mental Retardation has enhanced its efforts to collect outstanding revenue owed the Department for charges-for-care. The Department essentially has two courses of action it takes to address outstanding balances. The first is to make calls and send letters to the individuals or guardians (in most cases) demanding payment. The current procedure calls for several requests for payment: the calls and letters supplement the notices printed on each subsequent charges-for-care bill that informs the delinquent payor how much is overdue.

If unsuccessful in this attempt to receive payment, the Department petitions the Social Security Administration to change the representative payee from the individual or guardian to the Department of Mental Retardation. The Department presents evidence to Social Security that the client's room and board are not being paid. Since the Social Security Administration's first priority is to pay room and board, the Department is almost always successful with these claims.

If these avenues are unsuccessful, legal action may be taken.

If these policies and procedures provide ineffective, the Department will consider the auditors' recommendation to write off outstanding balances. However, once the balances have been written off, there is no systemic way to track and reinstate them if an individual's financial status changes or s/he dies.

The Department is in the process, however, of publishing policies and procedures that clearly identify the timeframes appropriate for attempting collections and for referral to the Social Security Administration for change in representative payee. The Department believes that rigorous application of these policies and procedures will prevent future balances from reaching the amounts noted by the auditors and will allow us to track and eventually recover the very few balances that remain. Should an individual's estate not contain enough funds to pay off the balance, that is the appropriate time to write off all, or the unrecoverable portion, of the balance.

Responsible person: Jeanette Maillet, CFO
Implementation date: Fiscal Year 2004

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 4: Non-Recording of Fixed Asset Transaction

The Department of Public Health (Department) did not comply with Comptroller's Policy Memorandum Number 310 (MMARS Memo 310), which sets forth the policies and procedures for recording fixed assets on the Commonwealth's Fixed Asset Sub-System of the Massachusetts Management Accounting and Reporting System (MMARS).

Of the 25 Special Supplemental Nutrition Program for Women, Infants and Children (WIC) transactions selected for testing, one payment voucher (PV) transaction related to the purchase of a van for \$153,000. However, the Department did not record an entry into the Fixed Asset Subsystem of MMARS, as is required by MMARS Memo 310.

Under the criteria of MMARS Memo 310, "All GAAP fixed asset transactions must be entered into the Fixed Asset Subsystem of MMARS". GAAP fixed asset transactions include, among other things, "vehicles, equipment, furniture, computer software, and all electrical and computer components with a useful life in excess of one year and with an original cost in excess of \$49,999". Finally, MMARS Memo 310 notes that "all GAAP assets must be recorded within 7 days of acquisition or disposal, unless given a specific written waiver by the Comptroller's Office."

Department personnel indicated that they were not aware that the MMARS requirement applied for purchases made with federal funds and consequently did not enter the van into the Fixed Asset Subsystem.

Recommendation

The Department should review all PVs greater than \$49,999 for possible entry into the Fixed Asset Subsystem of MMARS. The Department should also ensure that all program personnel responsible for the purchasing of assets informs the central accounting function of all asset purchases greater than this dollar threshold. Finally, the Department should ensure that all program personnel responsible for either preparing or approving PV documents are aware of the policies issued by the Office of the State Comptroller with which they must comply.

Department Corrective Action Plan

As soon as the requirement to record fixed asset transactions made with federal funds (Comptroller's Policy Memorandum #310) was known, the Massachusetts WIC Program entered the noted van purchase into the Fixed Asset Subsystem of MMARS.

Staff have viewed PVs greater than \$49,999 for potential entry into the Subsystem. Fiscal, purchasing and program personnel have been made aware of this policy regarding fixed assets and its timeframe, together with other requirements of the Office of State Comptroller, so that they will continue to be met. In addition, the accounting office at central office will run a GAAP fixed asset report on a weekly basis to monitor purchases made by all bureaus/hospitals to ensure Fixed Asset transactions are recorded in MMARS on a timely basis.

Responsible person: Mary Kassler
Implementation date: 7/15/03

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 5: Inability to Provide Supporting Documentation for Accounts Receivable

One of the hospitals operated under the Department of Public Health (Department) was unable to provide supporting documentation for adjustments made to accounts receivable for charges due from patients and was not performing monthly reconciliations between the hospital's records and the Commonwealth's Billing and Accounts Receivable Subsystem (BARS).

Our testing involved a review of two receivable entries (RE). Both represented charges due from patients. One RE was in the amount of \$5,345,932 and the other was for \$29,979,323. Department personnel stated that these REs originated in fiscal year 1996.

The Department is required to comply with BARS, a statewide, centralized subsystem utilized for billing and collections. Full accounting, recording and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing BARS.

Under the BARS subsystem, RE transactions may be classified as "summary receivables", the details of which are maintained by the individual departments. A summary receivable represents a rolling balance of billings and collections for a particular revenue source, for which the original RE may have originated many years ago.

The Commonwealth of Massachusetts Comptroller (OSC) Policy Memo #315 entitled OSC Policy on Reporting of Earned Revenue/Accounts Receivable states in part:

- *Departments are required to use BARS to report all earned revenue/ accounts receivable activity either in detail or summary fashion.*
- *Departments with an OSC approved delegated accounts receivable system may continue to post summary receivables on BARS, but must do so in accordance with this updated guidance.*

Regarding summary reporting, Memo #315 also states:

Departments are required to utilize BARS to maintain one summary receivable, across fiscal years, that accurately represents the net value of the Earned Revenue/ Accounts Receivable by revenue source code. When recording earned revenue/ receivables at a summary level on BARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period, it is a requirement that the summary receivable amount be adjusted by the department.

Sub-selections, receivable additions or deletions, were made to the summary receivable in order to verify the accuracy of the summary reporting. However, the Department's hospital was not able to provide the proper documentation to support the activity selected.

Without timely postings and reconciliations, the Department cannot be assured that receivables are accurately reflected, and the collection process is impaired. Further, without adequate documentation to support adjustments made to receivable balances neither the Department nor the OSC can be assured that the adjustments are appropriate and reasonable.

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 5: Inability to Provide Supporting Documentation for Accounts Receivable (continued)

Recommendation

The Department and the hospital should conduct an analysis to determine correct accounts receivable balances as of June 30, 2003 and prepare appropriate adjusting entries to reflect those balances. Furthermore, the Department should design and implement policies and procedures to ensure that they perform monthly reconciliations of their receivable entries to its records and the BARS. Finally, these receivable policies and procedures should include maintaining adequate supporting documentation.

Department Corrective Action Plan

The Department and Tewksbury Hospital will conduct an analysis to determine all accounts receivable balances as of June 30, 2003. Tewksbury Hospital will comply with OSC standard and policy for reporting earned revenue and accounts receivable using the standard BARS transactions (RI, RD, RE, CT, WO). Tewksbury Hospital will reconcile monthly to the BARS reports 466C and 430A generated by the Office of the Comptroller, and maintain adequate supporting documentation for all entries.

Responsible person: William Howley

Implementation date: 10/15/03

Massachusetts Highway Department Findings on Reportable Conditions

Finding Number 6: Oversight of the Owner Controlled Insurance Program Needs to be Improved

The Massachusetts Highway Department (Department), in conjunction with the Massachusetts Turnpike Authority (Authority), needs to continue to improve the oversight over the recording and financial reporting of Commonwealth of Massachusetts assets held in the Owner Controlled Insurance Program (OCIP). The OCIP was established in 1992 to provide a vehicle for the Commonwealth to assume responsibility for providing workers' compensation and general liability insurance coverage for all eligible contractors and subcontractors working on the Central Artery/Third Harbor Tunnel Project (the Project). In 1996, the Department established a Trust, managed and administered by an independent third party (Trustee), to protect Project assets set aside to fund liabilities for workers' compensation and general liability claims, as well as administrative expenses and certain defined contingencies under the OCIP. The Department entered into an agreement with the Authority to manage the operations of the Project, including the OCIP. An insurance company manages and processes the workers' compensation and general liability claims and provides excess liability coverage for the OCIP.

The Authority has taken numerous steps over the past two years to improve the oversight associated with the financial accountability and reporting of certain assets held in the OCIP. Among the steps taken included the hiring of an Internal Control Director, an independent CPA firm to compile the OCIP's transactions as well as prepare financial statements, a separate CPA firm to conduct an annual audit of the OCIP and an independent actuary to develop estimates of the OCIP's claims liability. In addition, the role of the Risk Management Director was enhanced. In spite of these efforts, however, the Department has not produced audited financial statements for the OCIP in a timely manner. The delay in producing audited financial statements for the OCIP translates directly into a delay in the completion of the Commonwealth's fiscal year 2003 audit and threatens the Comptroller's ability to comply with deadlines for reporting to the Legislature.

As a result of past efforts to improve the timeliness of financial reporting, summary transaction information that can be used for the purpose of posting transactions and compiling a financial statement is now being provided by the Trustee on a regular basis. The information that is provided, however, is not accompanied by supporting documentation that is required to effectively analyze the recorded transactions and to perform an audit. Management is not able to obtain that information in a timely manner. (*Fiscal Year 2002 Report Finding 8*)

Recommendation

The Authority should work with the OCIP's auditors and accountants to develop a checklist of the types of documentation and support that is required to be received for each type of transaction that takes place within the OCIP. Once developed, the Trustee needs to be directed to provide such information on a monthly basis, along with the summary transaction information that is currently being provided.

A meeting should be scheduled with representatives from the insurance company, insurance agent, Department and Authority, OCIP's auditors and accountants, and the Office of the Comptroller to review the checklist and emphasize the importance of receiving this information in a timely manner.

Massachusetts Highway Department Findings on Reportable Conditions

Finding Number 6: Oversight of the Owner Controlled Insurance Program Needs to be Improved (continued)

Department Corrective Action Plan

As noted in the finding, the Authority in conjunction with the Department has taken many steps over the past several years to prepare and have audited the financial statements of the OCIP in a timely manner. The delays this year was due specifically to the lack of cooperation from the insurance provider to provide documentation that supported the transactions processed through the Trust on a monthly basis.

The Department and the Turnpike Authority agree with the auditor's recommendation to develop a checklist of the types of documentation and support that is required to be received for each type of transaction that takes place with the OCIP. We support a meeting with representatives from the insurance company, insurance agent, Department and Authority, OCIP's auditors and accountants, and the Office of the Comptroller's to review the checklist and emphasize the importance of receiving information in a timely manner.

Responsible person: Sue Bristol (MassHighway), Ron Grenier (Mass. Turnpike Authority)

Implementation date: Ongoing

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 7: Late Recording of Fixed Assets

The Massachusetts Highway Department (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department acquired land for a cost of \$112,274 on June 10, 2000. However, the asset was not recorded into the MMARS fixed asset subsystem until December 27, 2002.

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$15,000 or more to: "Be recorded into the system within seven (7) days of acquisition...to properly account for and record those items owned by the Commonwealth...and to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report."

Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

Recommendation

The Department should monitor all fixed asset purchases to ensure the recording of fixed assets valued at \$15,000 or more onto the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

Department Corrective Action Plan

The MHD Accounting Section will put into practice a two-step process to record fixed assets onto MMARS in a timely manner. These steps will allow us to be in compliance with the Office of the Comptroller's requirement of recording assets within seven (7) days of acquisition. The following procedures will be implemented in budget fiscal year 2004:

Creation and distribution of a weekly fixed asset acquisition report: this report will be delivered to all persons responsible for reporting fixed asset transactions to the Accounting Section of MHD. The report will identify payments made within the previous week for purchases against specific object codes associated with fixed asset acquisitions. Transactions falling within the parameters of the GAAP fixed asset guidelines will require fixed asset acquisition documents (FA's) be prepared and delivered to Accounting immediately (if not already done so). These guidelines will be re-iterated to all sections within the Department by the Accounting Section.

Time stamp of documents: all FA documents received in Accounting will be immediately time stamped upon delivery and processed without delay unless the package is incomplete. Incomplete packages will be time stamped out of Accounting and sent back to the originating section for completion. This procedure will offer a more accurate audit trail and also provide information as to whether or not the seven (7) day recording requirement is reasonable or should be adjusted.

Responsible person: Matthew Rinella, Director of Accounting
Implementation date: 12/01/2003

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 8: Internal Controls over Fixed Assets Needs Improvement

The Department of Social Services (Department) was not in compliance with Office of the State Comptroller (OSC) requirements for accounting, reconciling, reporting and recording of fixed assets. The Department's Non-GAAP fixed asset listing as a June 30, 2003 totaling \$11,331,477 lacks dates of acquisition and source of funds. In addition, fixed assets lack a permanent individual state property control identification tag number, which is not in compliance with OSC's requirements.

The Department maintains GAAP fixed assets on the MMARS fixed asset system. The Non-GAAP fixed assets listing maintained by the Department which includes computer equipment, laptop computers and cameras, does not include any furniture inventory such as desks and file cabinets. The listing does not include dates of acquisition and funding source as required by OSC's regulations. Ten items were selected for review to verify the existence of the asset and proper recording. One item (a laptop computer) selected from the floor to determine if it was recorded properly could not be located on the Non-GAAP fixed asset listing. The review noted fixed assets were not tagged with an individual state identification number. Department personnel stated fixed asset items were tracked by their serial numbers and emphasis was placed on computer equipment and GAAP assets since furniture was deemed of little value since few new purchases were made in the last several years.

The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies, which state in part:

Chapter 4, Recording Including Depreciation, Policy Number 4-5:

Tagging of Assets - Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.

Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:

Fixed Asset Inventory - There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP & non-GAAP assets.

Reconciliation - There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.

Chapter 6, Reporting, Policy Number 6-3:

Non-GAAP Fixed Assets - Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.

By not maintaining proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

Recommendation

The Department should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that they are in compliance with the OSC MMARS Fixed Assets Subsystem User Guide. These controls should include the maintenance of a cumulative fixed assets listing, including dates of purchase and acquisition funding source. In addition, all fixed assets should be properly tagged with an individual property identification number in compliance to OSC's regulations.

Department of Social Services
Findings on Compliance with Rules and Regulations

**Finding Number 8: Internal Controls over Fixed Assets Needs Improvement
(continued)**

Department Corrective Action Plan

The Department's Inventory Update Form will be modified to include 2 new fields: "Asset Acquisition Date" and "Funding Source", and the tracking database will be modified to track this data as well. Effective immediately, all newly purchased technology assets meeting the criteria established by the Office of the Comptroller, will be tracked via this modified tool. In addition, the Department will investigate the costs associated with the purchase of more advanced inventory tracking software.

All technology fixed assets bear a unique serial number that is utilized by the Department to identify the asset.

Commencing immediately, all newly purchased furniture and equipment with a value exceeding \$1,000 will be recorded in the Department's inventory and tagged in accordance with Commonwealth policy.

Responsible person: Jim Nally
Implementation date: 10/2003

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 9: Payroll Certifications not Completed

The Department of Social Services (Department) did not complete Department bi-weekly payroll certifications in compliance to Office of the State Comptroller's (OSC) payroll expenditure requirements. The OSC relies on the certification as an assurance that services were performed and payroll records are accurate and maintained by the Department.

The OSC's Payroll Expenditures Manual-Chapter 5, Policy #5-1, Approving Payroll Expenditures issued June 28, 2002 states in part:

"Once an employee's time is recorded, his/her manager must confirm that services have been delivered in accordance with this record. Time and attendance can then be recorded in the payroll system."

A signatory authority or authorities certifies the entire payroll based on confirmation of managers. This approval should include the following statement or can be done on the "Payroll Expenditure Approval" form:

"This payroll has been processed in accordance with the Commonwealth's Payroll Expenditure Policy, State Finance Laws and this Department's Internal Control Plan. The amount listed has been certified to the Comptroller through the payroll system for payment. This certifies that time and attendance for each employee is on file in this department and approved by the appropriate manager to support amounts paid. This approval and supporting details will remain on file in this department for three years for review by the Office of the Comptroller or other auditing entity".

Both levels of approval should be done in accordance with the Commonwealth's Payroll Expenditure Policy, State Finance Law and the Department's Internal Control Plan. These approvals are key steps in the series of reliances for payment consistent with State Finance Law. The policy further states, *"The Comptroller requires an affidavit from the Department Head or designee that articles have been furnished, services have been rendered (including payroll) or obligations have been incurred, as certified."*

During fiscal year 2003, the Department's central and area office personnel completed weekly payroll exception certifications, however, the department bi-weekly payroll expenditures certification was not completed which is not in compliance with OSC's policies and procedures.

Department personnel stated the person completing the certification prior to fiscal year 2003 left the agency and no one assumed the responsibility.

Recommendation

The Department should implement procedures to comply with the OSC's payroll requirements and complete bi-weekly payroll certifications as an assurance to OSC that payroll services were rendered and proper documentation is maintained on file at the Department.

Department Corrective Action Plan

Commencing Monday, October 6, 2003 the department's CFO signs and dates the payroll expenditure approval form, inclusive of the payroll amount for the applicable pay period. The amount of the payroll will be consistent with the amount recorded on Payroll Report PCRS26, as run on the Monday of the payroll run. A file of the approval forms and back up PCRS reports will be maintained by the department's CFO.

Responsible person: Ellen Finnegan
Implementation date: October 2003

Department of Fisheries, Wildlife and Environmental Law Findings on Compliance with Rules and Regulations

Finding Number 10: Late Recording of Fixed Assets

The Department of Fisheries Wildlife and Environmental Law (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department purchased a Ford Super Cab truck for the Law Enforcement Division Hospital, at a cost of \$38,250.00 on April 2, 2001. However, the asset was not recorded into the MMARS fixed asset subsystem until July 1, 2002. Delay in entry was due to an administrative mistake. The asset was a GAAP Fixed Asset (\$15,000) at the time of the purchase. The threshold as to what was considered a GAAP fixed asset was changed on July 1, 2001 to \$50,000

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$50,000 (\$15,000 prior to July 1, 2001) or more to: "Be recorded into the system within seven (7) days of acquisition...to properly account for and record those items owned by the Commonwealth...and to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report." Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

Recommendation

The Department should monitor all fixed asset purchases to ensure the recording of fixed assets valued at \$50,000 or more onto the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

Department Corrective Action Plan

The Agency that made the mistake that is the subject of this finding is no longer part of this Department...they were moved to the Executive Office of Environmental Affairs in the FY04 GAA. For all other Agencies still in this Department and for DLE if they ever again benefit from any capital spending made by the Commissioner's accounts, I have sent a letter reminding everyone of the need to record all assets over 50,000 within seven days of acquisition. The persons receiving this memo are the respective Division CFO's...Mike Henry, Steve Henry, Pat Sheppard and for DLE, John Maxson and the Directors of each of these Agencies...Paul Diodati, Wayne MacCallum, Joan Kimball and Dick Murray.

Responsible person: Robert Austin
Implementation date: October 27, 2003

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 11: Non-GAAP Fixed Asset Accounting and Reporting Needs Improvement

The fiscal year 2002 single audit report noted that the departments included in the single audit of the Commonwealth were not in compliance with the Office of the Comptroller (OSC) regulations with regard to the accounting and reporting of Non-GAAP (Generally Accepted Accounting Principles) fixed assets. Non-GAAP fixed assets are those that fall below the threshold to be reported in the Commonwealth's financial statements. Beginning in fiscal year 2002, the Commonwealth increased the threshold between GAAP and Non-GAAP fixed assets from \$15,000 to \$50,000 for most fixed asset transactions. To comply with the requirement the Massachusetts Rehabilitation Commission (Commission) should have been reconciling the results of an annual inventory against its books and records on an annual basis. Our audit disclosed that the Commission has not performed such reconciliations using the prescribed methods of the OSC noted in Comptroller's Policy Memo #310, Fixed Asset Policies, which states in part:

Non-GAAP Fixed Assets should be recorded in a Department's inventory and reconciled periodically. Non-GAAP Fixed Assets Inventory may be subject to review in an audit process by the State Auditor's Office or the Commonwealth's independent auditors.

The prior audit noted that one of the critical steps in reconciling the results of an annual inventory is to be sure that last year's ending balance is the same as this year's beginning balance. In accounting terms, this is referred to as "a roll forward" of fixed assets. A roll forward is a schedule that reports prior year ending balances, identifies additions and deletions of such assets during the year and results in an ending balance that reports all Non-GAAP fixed assets currently owned and used by the department. The Statewide Corrective Action Plan stated that the OSC would communicate with departments during the current fiscal year regarding additional fixed asset procedures to ensure compliance with the roll forward and communication was sent to all agencies.

The current audit disclosed that as of September 30, 2003, the Commission had been performing annual inventories of Non-GAAP Fixed Assets but had not performed the required reconciliations referred to as the "roll forward" above. Commission officials explained that they were unaware of the single audit finding. As a result of our follow-up on this issue, the Commission has been in correspondence with the OSC and is now in the process of performing the required reconciliations to be in compliance with rules and regulations regarding fixed assets.

Recommendation

The Commission should continue to take corrective action by updating fixed asset records to reflect the "roll forward" procedure for each fiscal year. This is extremely important to accurately report the Commission's and the Commonwealth's fixed asset totals at the end of the year, including deletions and additions. Furthermore, this ensures that the Commission's assets are safeguarded and accurately reflected on its records.

Department Corrective Action Plan

The Agency will take the appropriate steps to bring its current inventory into compliance with Comptroller's Policy Memo #310, Fixed Asset Policies. These steps will take place during FY2004 in order to have the "roll forward" in place by 6/30/04.

Responsible person: John Kepple
Implementation date: Ongoing actions in FY 2004

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 12: Business Continuity Plan not Implemented

Prior Office of the State Auditor (OSA) audit reports starting in fiscal year 1996 have disclosed that the Massachusetts Rehabilitation Commission (Commission) had not documented, tested or implemented a Business Continuity Plan for restoring mission-critical and essential business functions should the automated systems be rendered inoperable or inaccessible. Generally accepted control practices and industry standards for Information Technology (IT) operations support the need for each entity to have an ongoing business continuity planning process that assesses the relative criticality of information systems and develops appropriate contingency recovery plans as required. The condition was corrected in fiscal year 2003 with the exception of testing and implementing the system, which is ongoing and estimated to be completed by October 6, 2003.

Prior audit reports revealed that the Commission lacked a clear understanding or consensus of what steps would be followed to regain business operations for various scenarios where IT operations were lost or unavailable. The audit recommended that the Commission develop a Business Continuity Plan that incorporates contingency plans to address various disaster scenarios. The Commission stated in its response to the OSA audit that:

"The agency fully agrees with the OSA's recommendation that the department develop a Business Continuity Plan. Disaster recovery plans, to the point that we can exercise control over, are a necessary part of the agency EDP policy and procedures. The current critical EDP systems that allow us local and central office access to statewide systems operations (MMARS, HR/CMS, etc.) are totally dependent on the state ITD Operations. As a small State Agency, we lack the resources (dollars, personnel and technical expertise) to recover from a major systems disaster. Our planning therefore relies on the ability of the state's ITD operations for access to and safeguarding of agency data. We do recognize that we must improve our ability to recover from a disaster to our central office server that includes our new client information system. We are tracking steps to improve data backup and recovery procedures in our central office EDP operations. As short-term solution we will locate a backup server at a remote site and test our ability to operate from that site. We will also work with ITD and other Agencies in order to develop formalized plans that will insure our operational recovery in the event of a loss of our central office or local area office."

The current audit disclosed that the Commission has developed, documented and is in the process of testing a Business Continuity Plan that includes an offsite disaster recovery-processing site. The EDP Operations Unit developed the plan. The software necessary to implement the plan was purchased from the Commission's computer maintenance vendor, who also was contracted to install and perform the testing with an estimated completion date of October 6, 2003.

Recommendation

The agency should continue to test and implement the Business Continuity Plan and update the plan annually to address current operational needs.

Department Corrective Action Plan

The computer maintenance vendor is currently working on initializing the backup system and we expect it to be operational by 10/31/03.

Responsible person: John Donnelly
Implementation date: 10/31/03

Department of Housing and Community Development Findings on Compliance with Rules and Regulations

Finding Number 13: Non-GAAP Fixed Asset Accounting and Reporting Needs Improvement

The fiscal year 2002 single audit report noted the departments included in the single audit of the Commonwealth were not in compliance with the Office of the Comptroller (OSC) regulations with regard to the accounting and reporting of Non-GAAP (Generally Accepted Accounting Principles) fixed assets. Non-GAAP fixed assets are those that fall below the threshold to be reported in the Commonwealth's financial statements. Beginning in fiscal year 2002, the Commonwealth increased the threshold between GAAP and Non-GAAP fixed assets from \$15,000 to \$50,000 for most fixed asset transactions. To comply with the requirement the Department of Housing and Community Development (Department) should have been reconciling the results of an annual inventory against its books and records on an annual basis. Our audit disclosed that the Department has not performed such reconciliations using the prescribed methods noted in Comptroller's Policy Memo # 310, Fixed Assets Policies, which states in part:

"Non-GAAP Fixed Assets should be recorded in a Department's inventory and reconciled periodically. Non-GAAP Fixed Assets Inventory may be subject to review in an audit process by the State Auditor's Office or the Commonwealth's independent auditor's."

The prior audit noted that one of the critical steps in reconciling the results of an annual inventory is to be sure that last year's ending balance is the same as this year's beginning balance. In accounting terms, this is referred to as "a roll forward" of fixed assets. A roll forward is a schedule that reports prior year ending balances, identifies additions and deletions of such assets during the year and results in an ending balance that reports all Non-GAAP fixed assets currently owned and used by the department. The Statewide Corrective Action Plan stated that the OSC would communicate with departments during the current fiscal year regarding additional fixed asset procedures to ensure compliance with the roll forward, and communication was sent to all agencies.

The current audit disclosed that as of October 3, 2003, the department had been performing annual inventories of Non-GAAP Fixed Assets but had not performed the required reconciliations referred to as the "roll forward" above.

Recommendation

The Department should take corrective action by updating fixed asset records to reflect the "roll forward" procedure for each fiscal year. This is extremely important to accurately report the Department's and the Commonwealth's fixed asset totals at the end of the year, including deletions and additions. Furthermore, this ensures that the Department's assets are safeguarded and accurately reflected on its records.

Department Corrective Action Plan

DHCD will update Non-GAAP fixed asset records to reflect the "roll forward" procedure for each fiscal year in order to accurately report the Department's and the Commonwealth's fixed asset totals at the end of the year, including deletions and additions. Furthermore, this will ensure that DHCD's assets are safeguarded and accurately reflected on its records.

Responsible person: Thomas Simard
Implementation date: June 30, 2004

State Reclamation Board

Findings on Compliance with Rules and Regulations

Finding Number 14: Late Recording of Fixed Assets

The State Reclamation Board (Department) did not record two fixed assets onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department purchased three trucks and a trailer for local mosquito boards of which two were required to be entered into MMARS:

1. Chevrolet ½ Ton A/U acquired 1/11/01 for \$ 15,208 was put on MMARS 11/15/02
2. Chevrolet ½ Ton acquired 4/29/01 for \$ 15,208 was put on MMARS 10/29/02

Both assets were GAAP Fixed Assets (\$15,000 or greater) at the time they were acquired. The threshold as to what was considered a GAAP fixed asset was changed on July 1, 2001 to \$50,000. Department personnel were not aware of the 7-day rule. These assets were recorded in MMARS as part of a catch up exercise at the local boards.

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$50,000 (\$15,000 prior to July 1, 2001) or more to: "Be recorded into the system within seven (7) days of acquisition...to properly account for and record those items owned by the Commonwealth...and to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report."

Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

Recommendation

The Department should monitor all fixed asset purchases to ensure the recording of fixed assets valued at \$50,000 or more onto the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

Department Corrective Action Plan

State Reclamation Board Administrator advised all the Area Boards that the Office of the Comptroller requires that all fixed assets valued at \$50,000.00 or more be entered into the MMARS Fixed Asset system within 7 days of receipt.

Responsible person: Dona Mitchell, Administrator
Implementation date: 11/5/2003

Office of the State Treasurer Findings on Reportable Conditions

Finding Number 15: Debt Management Operations – Failure to Follow Up and Correct Previously Identified Internal Control Deficiencies

In the Office of the State Treasurer (Treasury), responsibility for management of the Commonwealth's long-term debt program rests primarily with the Deputy Treasurer for Debt Management. Over the last few years, transactions entered into by the Treasury on behalf of the Commonwealth have become increasingly more complex, including innovative refunding transactions and variable rate bonds that involve imbedded derivatives. As a result of market conditions, the volume of transaction activity in recent years has also increased dramatically. During the fiscal year ended June 30, 2003, the Commonwealth issued approximately \$5 billion of general obligation bonds. Responsibility for producing an accounting trail and an accounting record for these bond transactions (e.g. fund allocations for bond sales; financial statement note disclosures; audit schedules and support) rests with the Office of the State Treasurer.

Treasury has not responded in a timely manner to all information requests from the Office of the State Comptroller, including information to support transaction reporting in MMARS, support for financial statement footnote disclosures and support for the audit of the Commonwealth's financial statements. Audit support required for the Commonwealth's audit appears to be developed well after the actual transactions take place. The lack of timely information can result in the state accounting systems presenting inaccurate information during the course of the fiscal year, requiring adjustment subsequent to the Commonwealth's year end through correcting entries once information is received.

This issue has been included in Single Audit reports dating back to 1997. In each of the seven years since this management recommendation pertaining to debt management was first issued, Treasury management has taken minimal actions towards resolving this matter. The timing of the response to information requests from the Office of the State Comptroller and the independent auditors has deteriorated in recent years as the volume and complexity of debt transactions has increased.

The failure of management to adequately focus on the concerns noted within these letters represents a significant deficiency in the design and operation of internal control that, in our judgment, could adversely affect the Commonwealth's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The Office of the State Treasurer should improve the timing of the processing and reporting of a proper accounting of debt transactions to the Office of the State Comptroller. Management should assign someone other than the individual responsible for managing bond transactions to prepare the accounting for those transactions. The Treasury should add to its transaction-closing checklist information necessary for the preparation of financial reporting along with timelines that can be monitored by management so that delays in completion can be explained.

Department Corrective Action Plan

The Treasury agrees that certain accounting information related to debt issuance has been delayed and that such delays have been exacerbated in recent years due to a higher volume of transactions and more complex debt structures. It is worth noting, however, that of the nearly \$5 billion in FY03 debt transactions referenced, over \$3.1 billion represented refunding transactions which will save the Commonwealth \$149.5 million through lower debt service payments. Subsequent to year-end, when much of the FY03 debt accounting information was being prepared, two additional refunding issues were executed totaling nearly \$1.2 billion, which will save the Commonwealth an additional \$69.9 million through lower debt service payments.

**Office of the State Treasurer
Findings on Reportable Conditions**

Finding Number 15: Debt Management Operations – Failure to Follow Up and Correct Previously Identified Internal Control Deficiencies (continued)

Department Corrective Action Plan (continued)

Nevertheless, the Treasury agrees that necessary accounting information should be provided on a more timely basis. Treasury will increase the priority of providing such information more promptly, and develop and monitor timelines for the provision of this accounting information to ensure that timeliness improves.

Responsible person: Jeffery Stearns

Implementation date: June 30, 2004

Institutions of Higher Education Massasoit Community College Findings on Compliance with Rules and Regulations

Finding Number 16: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable Subsystem

Massasoit Community College (College) was not entering accounts receivable information into the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) in a timely manner. Further, the College was not performing monthly reconciliations between its records and BARS. BARS is a statewide system centralized subsystem used for billings and collections.

One Receivable Entry (RE) in the amount of \$1,830,542.22 was tested. College officials stated that this was a summary RE that originated in fiscal year 1999, and represents fees due from students, which are retained by the College. Under the BARS subsystem, RE transactions may be classified as "summary receivables", the details of which are maintained by the individual departments. In essence, a summary receivable represents a rolling balance of billings and collections for a particular revenue source, for which the original RE may have originated many years ago.

College officials stated their internal accounting records are updated on a daily basis, but due to not having sufficient staffing and the installation of a new computer system, they have not been able to perform monthly reconciliations and transmit the data to BARS. It was determined that the College's balance on BARS as of January 23, 2003 was \$1,830,542, the same as the RE transaction selected for review and no entries were entered on BARS between January 23, 2003 and March 31, 2003. A subsequent RE transaction and adjustment to BARS was done on July 23, 2003, bringing the balance to \$3,489,704, a difference of \$1,659,162, which was not reflected on BARS at year end.

Full accounting, recording and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing BARS and departments, including colleges, are required to use BARS.

The Commonwealth of Massachusetts Comptroller Policy Memo #315 entitled Office of the Comptroller (OSC) Policy on Reporting of Earned Revenue/Accounts Receivable states in part:

- *Departments are required to use BARS to report all earned revenue/accounts receivable activity either in detail or summary fashion.*
- *Departments with an OSC approved delegated accounts receivable system may continue to post summary receivables on BARS, but must do so in accordance with this updated guidance.*

Regarding summary reporting, Memo #315 also states:

Departments are required to utilize BARS to maintain one summary receivable, across fiscal years, that accurately represents the net value of the Earned Revenue/Accounts Receivable by revenue source code. When recording earned revenue/receivables at a summary level on BARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period, it is a requirement that the summary receivable amount be adjusted by the department.

Without timely posting and reconciliations, the College cannot be assured that the Commonwealth's records accurately represent the net value of the Earned Revenue/Accounts Receivable and neither the College nor OSC cannot be assured that their records are in agreement with the Commonwealth's accounting system.

Recommendation

The College should ensure that they make timely entries and perform monthly reconciliations of their Summary Receivable Entries on BARS to their internal accounts receivable system.

**Institutions of Higher Education
Massasoit Community College
Findings on Compliance with Rules and Regulations**

Finding Number 16: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable Subsystem (continued)

Department Corrective Action Plan

Massasoit Community College has taken several steps to correct the problem of late data entering and the reconciling of its accounts receivable to the BARS subsystem.

The College has implemented the subsystem Banner/Student module as of July 1, 2003. This system will provide the College with all of the necessary information needed to be reported on BARS monthly.

The Business Office has also just hired 2 accountants and 1 Bookkeeper to fill the vacant positions in the Office. The task of reconciling MCC's A/R on Banner (our in-house system) to BARS along with the data entering of the information has been assigned to one of the new accountants. Our MMARS Security Officer has requested access to the MMARS and BARS systems for the accountant. Training and data entry of the information on BARS will begin as soon as the security for BARS has been approved. We are hoping for this by the end of the week.

The Assistant Comptroller will be overseeing the monthly reconciliation of this information temporarily until the Bursar has returned from medical leave.

We are confident that with a full staff in the Business Office and the new Banner/Student module that MCC will be able to accurately record all of the College's revenue into the BARS subsystem on a timely manager.

Responsible person: Joan Mulrooney, Assistant Controller

Implementation date: October 15, 2003

**Institutions of Higher Education
Roxbury Community College
Findings on Compliance with Rules and Regulations**

Finding Number 17: Non-Appropriated Fund Activity and Balances not Reconciled Monthly

Prior audit reports starting in fiscal year 1995 have disclosed that Roxbury Community College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly as required by Commonwealth laws and regulations. To comply, the College should have reconciled the Massachusetts Management Accounting and Reporting System (MMARS) 110H Report with its internal records on a monthly basis.

The prior audit disclosed that as of October 1, 2002 the College had made some improvement and completed reconciliations through March 31, 2002 for its Non-Appropriated Fund Activity.

Our follow-up audit disclosed that the College has not been entering its non-appropriated fund activity in MMARS and reconciling its internal records to the MMARS 110H Report on a monthly basis. On August 13, 2003, the College submitted a Corrective Action Plan stating that “Due to unexpected problems with the implementation of the conversion to the Jenzabar system, the full implementation of this finding has been delayed, but the College expects to complete the implementation by December 31, 2003.”

On September 30, 2003, we were provided with a reconciliation of the non-appropriated fund for the fiscal year ended June 30, 2003. However, since activity was not entered into MMARS the reconciliation was of little value. Also, our review of the reconciliation disclosed that adjustments were based on the need to adjust the MMARS records to agree with the in-house trust records. The Director of Finance stated to us that the adjustments represented financial activity prior to July 1, 2002, however, he could not provide details on documentation of the adjusted amount. (*Fiscal Year 1995; 2002 Report Finding 11*)

Recommendation

The College should continue to take corrective action by updating and reconciling non-appropriated funds in MMARS. The College should continue to input and reconcile its Fund 901 activity on a monthly basis.

Department Corrective Action Plan

The College has provided the SAO Audit Team with an end of year (6/30/03) reconciliation report for fiscal year 2003. However, figures were never entered into MMARS. With the approval of the Comptroller said activity will be done as soon as possible.

Going forward, the College will begin the practice of quarterly reconciliation of non-appropriated funds into MMARS. Specifically, three-month intervals of financial data will be reconciled to MMARS as soon as that data (in its entirety) becomes available. This practice is consistent with guidance that was provided by SAO administrators to the College President and Vice President for Administration and Finance at an audit update meeting held on 9/22/03.

Responsible person: Craig Zaehring, Director of Finance
Implementation date: December 12, 2003

**Institutions of Higher Education
Salem State College**

Findings on Compliance with Rules and Regulations

Finding Number 18: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System

Salem State College (College) was unable to provide adequate supporting documentation to support adjustments made to accounts receivable for tuition and fees and was not performing monthly reconciliations between the College's records and the Commonwealth's Billing and Accounts Receivable Subsystem (BARS).

Our testing involved a review of two Receivable Entries (RE). One transaction, in the amount of \$3,809,183 represented tuition, and the second, in the amount of \$12,334,512 represented fees. The College could not provide a reconciliation substantiating these two entries. According to a College official, the two REs on the BARS system were "unrealistic figures" and the actual amount owed according to the College's PeopleSoft System (General Ledger and Student Financials Module [includes student financial aid information]) was \$1,530,381 for tuition and \$2,654,555 for fees, a total of \$4,184,936. As a result, the College processed a Receivable Decrease (RD) in the amount of \$10,537,992.37 to adjust the June 30, 2003 BARS balance by decreasing the tuition by \$858,035.12 and the fees by \$9,679,957.25 with Office of the State Comptroller (OSC) approval.

The College prepared the aforementioned RD as follows:

Per BARS	Actual Per SSC	Variance
\$12,334,512	\$2,654,555	\$ 9,679,957
<u>3,809,183</u>	<u>1,530,381</u>	<u>2,278,802</u>
<u>\$16,143,695</u>	<u>\$4,184,936</u>	\$11,958,759
		<u>(1,420,767)*</u>
		<u>\$10,537,992 RD</u>

*Total of last two FY '03 Cash Transfers (CTs) processed by SSC on July 3, 2003.

College officials explained that the RD was due to cumulative results of gaps in the reporting of BARS activity over recent years and not the result of reductions of receivables during fiscal year 2003. Further, the officials explained that it appears that there were reporting gaps as well as discrepancies in reconciling BARS receivable totals and activities since 1997 and these gaps and discrepancies have led to the unrealistic figures reflected on the BARS System.

The College is required to comply with BARS, a statewide, centralized subsystem utilized for billing and collections. Full accounting, recording and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing BARS.

Under the BARS subsystem, RE transactions may be classified as "summary receivables", the details of which are maintained by the individual departments. A summary receivable represents a rolling balance of billings and collections for a particular revenue source, for which the original RE may have originated many years ago.

The Commonwealth of Massachusetts Comptroller Policy Memo #315 entitled OSC Policy on Reporting of Earned Revenue/Accounts Receivable states in part:

- *Departments are required to use BARS to report all earned revenue/accounts receivable activity either in detail or summary fashion.*

**Institutions of Higher Education
Salem State College**

Findings on Compliance with Rules and Regulations

Finding Number 18: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System (continued)

- *Departments with an OSC approved delegated accounts receivable system may continue to post summary receivables on BARS, but must do so in accordance with this updated guidance.*

Regarding summary reporting, Memo #315 also states:

Departments are required to utilize BARS to maintain one summary receivable, across fiscal years, that accurately represents the net value of the Earned Revenue/Accounts Receivable by revenue source code. When recording earned revenue/receivables at a summary level on BARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period, it is a requirement that the summary receivable amount be adjusted by the department.

We requested documentation to support the two receivables selected. The College attempted to create a reconciliation as of July 11, 2003. This reconciliation resulted in processing the RD for \$10,537,992 and a remaining unaccounted for variance of \$547,288.22 between the College's records and BARS.

Without timely reconciliations, the College cannot be assured that receivables are accurately reflected, and the collection process is impaired. Further, without adequate documentation to support adjustments made to receivable balances neither the College or the OSC can be assured that the adjustments are appropriate and reasonable.

Recommendation

The College should conduct an analysis to determine correct accounts receivable balances as of June 30, 2003, and prepare the appropriate adjusting entries to reflect those balances. The analysis should include discussions with key personnel at the OSC to resolve the \$547,288 unexplained variance at the time of our audit. Furthermore, the College should design and implement policies and procedures to ensure that they perform monthly reconciliations of their receivable entries to its records and the BARS. Finally, these receivable policies and procedures should include maintaining adequate supporting documentation.

Department Corrective Action Plan

The events as described above were undertaken by the College to properly reflect what was believed to more closely appropriate the Account Receivable balance that was on the College's ledger as of June 30, 2003. Upon reviewing of BARS records and those of the College, it was determined that there were reporting gaps going back to 1997 that created this discrepancy and management felt it advisable to reflect a more current and accurate level of Accounts Receivable. Below represents the College's Plan to correct this finding.

First, the levels of accounts receivable will be revised in three phases. First, we will revise this level to equal the amount of Receivable that will be reported on our Audited Financial Statements as of June 30th. Then we will further revise this to reflect activities up through September 30th. Finally, from that point forward we will revise these figures each month as part of our monthly closing routine. It is anticipated that these revisions should be completed and monthly update routines in place by the end of November. Second, we will embark on a comprehensive training program for staff at the College on the BARS System. We already have been in contact with the training office in the Comptroller's Office and have made arrangements for a staff member to come to Salem State and work with College staff with the BARS System.

**Institutions of Higher Education
Salem State College**

Findings on Compliance with Rules and Regulations

Finding Number 18: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System (continued)

Department Corrective Action Plan (continued)

Finally, the College will maintain its Student Accounting system to provide timely and accurate levels of Account Receivable balances and report same on a monthly basis.

Responsible person: Joseph F.X. Donovan, Executive Director of Financial Services

Implementation date: December 15, 2003

Various Departments

Findings not Repeated from Prior Years

1. The departments of the Commonwealth were not in compliance with Office of the Comptroller regulations regarding the accounting and recording of Non-GAAP fixed assets. The Comptroller needed to stress the importance of internal controls to safeguard fixed assets. The Office of the Comptroller issued Policy Memo #313A, Amended Fixed Asset Subsystem Policy Manual and User Guide, which included clarification and emphasis on Non-GAAP fixed asset reporting. *(Fiscal Year 2002 Report Finding 1)*
2. The Committee on Criminal Justice (Committee) did not maintain a fixed asset listing which included historical costs and had not performed an annual inventory. It also noted that some fixed assets lacked individual property control identification tag numbers. Currently, the Committee has established adequate controls over fixed assets by maintaining a fixed assets listing and it conducted a physical inventory of all property and equipment during May 2003. The Committee prepared an inventory listing by location that included historical costs for purchases during FY03. In addition, a random test of ten (10) assets was performed and accounted for without exception. *(Fiscal Year 2002 Report Finding 2)*
3. The Committee on Criminal Justice (Committee) changed dates on payment vouchers when entering the information into the Massachusetts Management Accounting and Reporting System (MMARS) and delayed payments to subrecipients in order to enforce the contract requirements of receiving quarterly programmatic and financial quarterly reports. Currently, the Committee changes the dates on Payment Vouchers (PV) only in cases where the subgrantee completed sections of the payment voucher that should have been completed by the department. The PV instructions clearly state the subgrantee is to fill in shaded areas. The Committee completes the remainder of the PV according to the Office of the Comptroller (OSC) payment voucher instructions. Of the thirty-eight payment voucher transactions selected for testing, four payment vouchers had the date crossed out and changed because the subgrantee completed the portion of the PV that the Committee was supposed to complete. *(Fiscal Year 2002 Report Finding 3)*
4. The Department of Public Health, in order to get payments to providers faster, backdated the date that the provider furnished on the PV when inputting the information into the Massachusetts Management Accounting and Reporting System. All fiscal staff were reminded of the need to adhere to Office of the Comptroller policy and no similar instances were noted during fiscal year 2003 testing. *(Fiscal Year 2002 Report Finding 7)*
5. The Executive Office of Elder Affairs (Office) did not establish adequate controls over fixed assets. The Office established fixed assets controls, including a fixed asset log, fixed asset tagging and a physical inventory. *(Fiscal Year 2002 Report Finding 9)*
6. The Office of the State Treasurer (Treasury) needed to improve the controls and procedures to ensure an accurate and timely transmission of data from the Treasury Cash Management System (CMS) to the Commonwealth's Massachusetts Management Accounting and Reporting System (MMARS). The Treasury and the Office of the Comptroller have instituted monthly reconciliation that ties balances reported by the bank to the balances reported on CMS to the balances reported on MMARS. *(Fiscal Year 2002 Report Finding 10)*

Various Departments

Findings not Repeated from Prior Years

7. Roxbury Community College (College) did not have an updated internal control plan in accordance with Chapter 647 of the Acts of 1989. Also, the College's risk assessment was not included as part of the internal control plan. Our current audit disclosed that the College has updated its internal control plan, developed and included the risk assessment in the plan and submitted it to the Office of the State Comptroller. *(Fiscal Year 2002 Report Finding 12)*

8. Salem State College (College) did not have an updated internal control plan in accordance with Chapter 647 of the Acts of 1989. Our current audit disclosed that the College has updated its internal control plan. *(Fiscal Year 2002 Report Finding 13)*